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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000055

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DEPT FOR EAP/TC

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TAGS: [ECON](#) [EINV](#) [PINR](#) [TW](#) [CH](#)

SUBJECT: CHEN SPEECH - SPECIAL IMPACT ON HIGH-TECH COMPANIES

REF: A. TAIPEI 9

- [B](#). TAIPEI 8
- [C](#). TAIPEI 12
- [D](#). TAIPEI 13
- [E](#). 2005 TAIPEI 4721
- [F](#). 2005 TAIPEI 4851
- [G](#). 2005 TAIPEI 5034

Classified By: AIT Director Douglas Paal, Reason 1.4 d

[1](#). (C) Summary: As reported in refs a-d, Taiwan President Chen Shui-bian in his annual New Year's speech poured cold water on hopes for improved cross-Straits relations in the near future. The President in his address altered the accepted formulaic language on cross-Straits relations and announced that proactive management and effective opening will be the new guideline for trade and investment with China. The speech generated widespread concern in Taiwan's business sector that stricter government supervision will have a negative impact on businesses, especially on high-tech firms. End summary.

#### Chen Changes the Cross-Straits Rules

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[2](#). (SBU) In his speech, Chen Shui-bian deliberately twisted the previous policy language of "active opening, effective management," into "active management, effective opening." He explained that this meant the government should "actively" take "management" responsibility so as to "effectively" minimize the risk in "opening" to China.

#### More Auditing/New Requirements

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[3](#). (SBU) Premier Frank Hsieh told reporters on January 2 that the speech could mean additional auditing of firms investing in the PRC. Hsieh explained that additional auditing would help make up for Taiwan's inability to inspect the firms directly (i.e., because Taiwan regulatory officials cannot travel to China.) Economics Minister Ho Mei-yueh told reporters on the same day that her ministry will draft a new set of regulations. She explained that in the past the government's regulation of cross-Straits economic issues had been largely passive, only reacting if things became a public issue. However, in the future, she said, the government will be more "active" in ensuring that trade and investment with China is "effective"- which she explained as meaning

beneficial to overall Taiwan economic and national interests.  
(Note: Auditing has a history in Taiwan of being used as a political tool: cooperate or be audited, repeatedly.)

#### Business Disappointment

14. (C) Some local entrepreneurs have told AIT of their deep disappointment at the negative shift in the tone of Taiwan policy toward China. One entrepreneur in Taiwan's computer animation industry told AIT that the speech was the final straw, he was now ready to leave Taiwan and move his business to Hong Kong. An executive at an IC packaging and testing firm commented that not only were his company's planned investments in China now unlikely to be approved, but that his company's cooperative projects with Chinese firms on IC design would also be put on hold. The Far East Air Transport (FAT) Vice President told AIT on January 3 that the company's executives were very worried by President Chen's January 1 speech and believed the time-line for cross-Strait charter flights had been indefinitely postponed.

#### Speech Will Provide A Boost for Export Control

15. (C) An official at Taiwan's Bureau of Foreign Trade told AIT on January 5 that BOFT believes that President Chen Shui-bian's January 1 speech will benefit export control awareness. He said the speech had already had a major impact on Taiwan businesses; high tech firms in particular anticipate that their dealings with China will be looked at much more closely. He noted that Taiwan's "Sensitive High Tech Protection Act" will be legislated soon and will include much stricter controls on intangible technology transfers to

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China. The official said BOFT was interested in talking with the German government about Siemens' business operations in Iran. BOFT believes that Siemens is a major provider of maintenance services for Iran's electrical and communications networks and is interested in how they do this without inadvertently transferring sensitive intangible technologies.

They believe the German government enforcement of restrictions on intangible technology transfer could be a model for Taiwan.

#### Politicians Say the Darndest Things

16. (C) Powerchip, Taiwan Semiconductor Industry Association, and Taiwan Computer Industry Association Chair Frank Huang told AIT on January 6 that the reaction to the speech in the high-tech business community was "very negative." However, he added that he thought the effect would be more psychological than practical, and, in any case, true to his political nature, President Chen would be saying something different soon.

PAAL